

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

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In the Matter of

AN ADJUSTMENT OF RATES)	
OF COLUMBIA GAS COMPANY)	CASE NO. 8281
OF KENTUCKY, INC.)	

O R D E R

On December 30, 1981, the Commission entered an Order approving an increase in rates for Columbia Gas Company of Kentucky, Inc. ("Columbia"). As a part of its Order, the Commission set a hearing for April 14, 1982, to allow Columbia and other interested parties an opportunity to present testimony regarding profits on sales from prepaid gas. The hearing was held as scheduled with the Consumer Protection Division of the Attorney General's Office present.

Discussion

The Commission's Order dated December 30, 1981, on pages 22 and 23 described the method by which profits on Columbia's prepaid gas were earned and the purpose of the Commission's inquiry, as follows:

. . . Columbia prepays its wholesale suppliers, Columbia Gas Transmission Corporation and Columbia LNG Corporation, two other subsidiaries of the System, for natural and synthetic gas. Columbia owns this gas although it neither holds nor stores it.

Natural and synthetic gas purchased from suppliers is prepaid during off-peak usage periods and withdrawn from storage to meet peak usage during the winter heating season. Therefore, a lag exists between the date Columbia prepays for nominated gas and the date it is sold to its customers.

Columbia, which uses the first-in, first-out method of pricing, assigns the earliest price of gas to gas transferred from the prepaid account. However, Columbia charges its customers the rates in its tariffs in effect at the time the gas is withdrawn from storage which include those approved in its most recent PGA [purchased gas adjustment] filing. Since the PGA rate is designed to allow recovery of 100 percent of the current increase in the cost of gas purchased, Columbia is recovering more than the cost of gas transferred from prepayments through these rates.

As the cost of natural gas continues to increase, it appears to the Commission that the cost of gas transferred from prepayments will be lower than the cost per Mcf included in Columbia's base rates. The Commission concludes, therefore, that a hearing should be held to determine the extent that this over-recovery is occurring and if Columbia should be required to refund to its customers profits on sale from prepayments.

Columbia's witness, Mr. W. W. Burchett, Jr., in his testimony before the Commission, generally agreed that the operation of the prepaid gas account and the PGA rates produced profits on the sales of prepaid gas. However, Mr. Burchett further stated that since these profits were reflected in Columbia's earnings, these earnings could not be "excessive" as Columbia had not been earning in excess of the returns found fair, just and reasonable by the Commission. Moreover, Mr. Burchett said that absent these profits,

Columbia would be required to file general rate increases more frequently which could in fact be more costly to the ratepayer because of the expenses associated with a general rate case. The Commission has reviewed Columbia's earnings and finds that it has never substantially exceeded and is not presently exceeding the return found fair, just and reasonable by the Commission. Moreover, the Commission also recognizes that 2 years and 8 months elapsed between Columbia's general rate case filings during a period of unprecedented double-digit inflation and high interest rates. Therefore, the Commission is of the opinion that Columbia should not be required to refund the profits on prepaid gas since doing so would undoubtedly result in an immediate general rate case and ultimately higher rates for Columbia's customers.

The Commission will instead require Columbia to continue to make monthly determinations of this profit and will further continue to monitor Columbia's returns to determine any excessive earnings which, if found, could necessitate a refund.

IT IS THEREFORE ORDERED that Columbia shall continue to calculate its monthly profits from the sales of prepaid gas.

IT IS FURTHER ORDERED that this case be and it hereby is dismissed without prejudice to open a new case regarding the profits on prepaid gas should Columbia's jurisdictional earnings warrant.

1982.

Done at Frankfort, Kentucky, this 5th day of August,

PUBLIC SERVICE COMMISSION

Marlin M. Voth
Chairman

Katherine Randall
Vice Chairman

Lent Carrigan
Commissioner

ATTEST:

Secretary